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Driven by Detail

EXCO TECHNOLOGIES LIMITED



ANNUAL REPORT 2000

HIGHLIGHTS

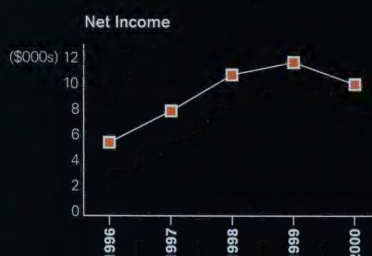
EXCO TECHNOLOGIES LIMITED IS A GLOBAL SUPPLIER OF CASTING AND EXTRUSION TECHNOLOGY, PRIMARILY FOR AUTOMOTIVE AND OTHER INDUSTRIAL MARKETS. IN ADDITION, EXCO DESIGNS AND SUPPLIES AUTOMOTIVE SYSTEMS THAT INCLUDE POWDERED METAL CYLINDER LINERS AND AUTOMOTIVE RESTRAINT SYSTEMS.

	2000	1999	1998	1997	1996
	(\$000s) except per share amounts				
Sales	\$118,070	\$ 118,295	\$ 118,045	\$ 99,579	\$ 73,403
Net income	\$ 10,310	\$ 12,036	\$ 11,115	\$ 8,388	\$ 5,880
Fully diluted earnings per share	\$ 0.50	\$ 0.59	\$ 0.55	\$ 0.42	\$ 0.30
Cash flow from operations	\$ 24,216	\$ 24,208	\$ 21,238	\$ 16,355	\$ 11,636
Fully diluted cash flow per share	\$ 1.15	\$ 1.17	\$ 1.04	\$ 0.81	\$ 0.59
EBITDA	\$ 29,398	\$ 32,617	\$ 29,572	\$ 21,688	\$ 15,279
Total net debt to equity	.37:1	0:1	.26:1	.15:1	.06:1
Capital expenditures and investments	\$ 60,316	\$ 8,669	\$ 26,155	\$ 22,991	\$ 18,790

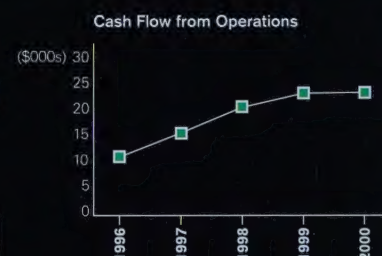
Sales, net income and cash flow have shown significant compound growth over the previous five years. Growth in 2000 temporarily stalled as the re-engineering of OEM powertrain delayed the release of new programs. Growth is expected to resume in 2001.



SALES HAVE INCREASED AT AN AVERAGE ANNUAL COMPOUND RATE OF 13% OVER 5 YEARS.



NET INCOME HAS INCREASED AT AN AVERAGE ANNUAL COMPOUND RATE OF 15% OVER 5 YEARS.



CASH FLOW HAS INCREASED AT AN AVERAGE ANNUAL COMPOUND RATE OF 20% OVER 5 YEARS.

PRESIDENT'S LETTER



BRIAN A. ROBBINS

*President & Chief
Executive Officer*

Fiscal 2000 has been a year of challenge, and one of great reward. It has been a year of expansion and positioning in order to meet the demands of our customers and the industry. Year over year, revenues remained static and earnings declined slightly, but the Company acquired another world-class company and likely a second, laying the foundation for future growth.

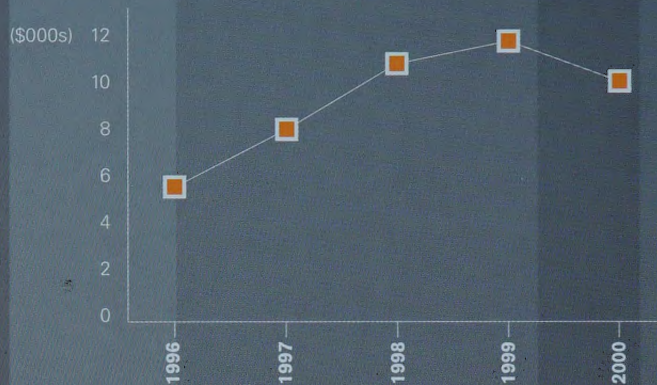
We called 1998 a year of transition and 1999 our consolidation phase. For 2000, our strategic plan included the establishment of new facilities and a goal that all of our plants be profitable. The plan was executed successfully and Exco now has the capacity to provide the most sophisticated tooling in the world to an expanding customer base.

casting technology

PRESIDENT'S LETTER



Net Income



NET INCOME HAS INCREASED AT AN AVERAGE ANNUAL COMPOUND RATE OF 15% OVER 5 YEARS.

Exco is the industry leader and continues to raise the bar. In anticipation of significant, new automotive contracts, we expanded and re-equipped our casting technology group. We invested in many new costly prototype programs, several of which will achieve production status over the next 18 months. These programs included continuously variable transmissions, 5-speed transmissions and 6-speed transmissions. Recently, there has been dialogue among domestic automobile manufacturers regarding the conversion of engine blocks to aluminum. This change is essential to the development of more fuel efficient vehicles; however, for the moment, most domestic engine blocks continue to be produced in cast iron. As customers move forward with leading edge technology and innovation, Exco will be ready to capitalize.

Over the past three years, automakers have experienced record sales, operated their plants at capacity and sold whatever they could build. Fuel prices and loan rates, at historically low levels, served only to nourish consumer spending. However, we are now witnessing significant fuel cost inflation, higher interest rates, larger manufacturer rebates as well as lower used vehicle residual values. At present, most domestic automakers have in excess of 60 days of inventory and are randomly shutting down their assembly plants.

This may sound less than optimistic but every cloud has a silver lining. There will be significant turbulence in the auto industry, but the end result will be clearly defined direction and decision-making. Fuel economy and a more price-conscious consumer will dictate that automakers re-design the product. At Exco, we have always said, "Times of change are times of opportunity." We are poised to receive significant new contracts, we remain the dominant low cost producer and continue to see positive indicators. Orders for die-cast moulds precede the introduction of re-engineered powertrain by two years. We have demonstrated the ability to maintain our margins even in a declining market. Therefore, we believe that the volume of new business, over the next couple of years, will be a watershed.

"TIMES OF CHANGE ARE TIMES OF OPPORTUNITY."

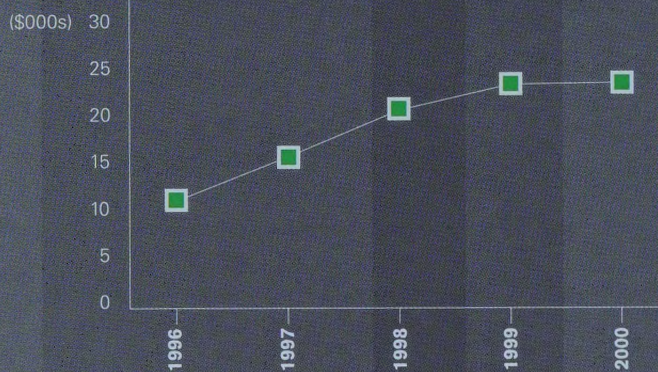
In the past year, we added substantial new business and customers. As well, we diversified into aluminum wheel tooling and significant magnesium instrument panel programs. These programs will continue when the new programs are released, and should propel revenue and earnings to higher levels. These are the issues primarily affecting our large powertrain facility in Newmarket, Ontario. In the meantime, however, we have made significant progress at our Extec (Markham, Ontario) and Edco (Toledo, Ohio) divisions. Both of these divisions are handsomely profitable and enter 2001 with historically high backlogs.

With regard to our extrusion technology group, significant progress has been realized over the past year. We moved our division in Michigan to a new company-owned location. This move was disruptive and costly but fully expensed in 2000. This division is now growing and generating profit. Our remaining extrusion divisions are performing well and according to plan.



extrusion technology

Cash Flow from Operations



CASH FLOW HAS INCREASED AT AN AVERAGE ANNUAL COMPOUND RATE OF 20% OVER 5 YEARS.

While we continue to grow in our traditional industrial markets, there is a growing application for aluminum extrusions in the automotive industry. We are producing tooling for such parts as bumpers, alternator heat sinks, oil coolers, trim, chassis components and even Ford's electric motor housing for its new hybrid vehicle.

All in all, Exco's core business is intact and on track. Significant growth remains to be realized and the impact on the bottom line will be even greater.

In September, Exco acquired TecSyn International, a company consisting of two businesses, Polytech and TecSyn PMP. This company is profitable, has an excellent track record and shows good growth potential. Polytech is the leading, world-class provider of flexible restraint and storage solutions for the global automotive market. TecSyn PMP supplies powdered metal cylinder liners for aluminum block engines using a proprietary isostatic pressing system. I know the company well, having served as Chairman for several years.

Polytech has an engineering and prototyping centre in Detroit where products are designed, engineered and developed in response to customer needs. Polytech generates the designs and holds patents on many of the components employed. After the proposal and sample stage, the final product and related process is completed and transferred to Mexico for production. This business is quite profitable and growing at a rate of 25% compounded. We are already reviewing the possibility of establishing a facility in Europe to satisfy growing European demand.

“ALL IN ALL, EXCO'S CORE BUSINESS IS INTACT AND ON TRACK.”

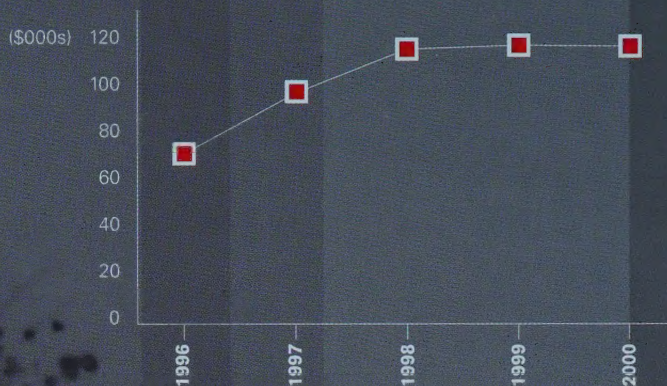
The TecSyn PMP powdered metal cylinder liner business is still in its early production phase and on the threshold of an exciting future. PMP cylinder liners provide greater structural integrity to cast aluminum cylinder blocks resulting in improved wear, better heat transfer and lower emissions. Eventually, they will replace conventional cast iron liners. We have had success with the manufacturers of 2-cycle engines and expect this business to escalate in 2001. Our PMP cylinder liners are currently used in the Dodge Viper and we expect to introduce them to other automakers in the near future. This acquisition immediately adds \$50 million of revenue and is accretive to earnings. There was a strategic plan to broaden our market and this should help temper the cyclical nature of our tooling business. We believe time will demonstrate that this was a prudent acquisition for Exco.

Subsequent to our year end, Exco made an all cash offer to acquire all of the shares of Techmire Ltd. for \$3.85 per share representing a total cash net cost of about \$13 million. Techmire's and Exco's businesses are very compatible.

Techmire was founded in 1973 and is the world leader in the design and manufacture of multiple-slide die-casting machines for high precision components. Techmire equipment is renowned for its superior quality, and sold in over 30 countries to manufacturing companies



Sales



SALES HAVE INCREASED AT AN
AVERAGE ANNUAL COMPOUND RATE
OF 13% OVER 5 YEARS.

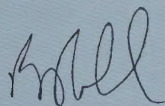
automotive systems

operating in a variety of industries, including electronics, automotive, telecommunications and consumer products. The components produced by Techmire machines are found in a multitude of everyday items such as computers, telephones, automobiles, locks, pens, lighters and furniture. It is expected that this transaction will close in January 2001. The Exco-Techmire alliance will allow both to grow and prosper. Exco has tremendous engineering depth and strong financial resources. Techmire supplies turnkey systems by integrating the machine and tool. This is the direction Exco wants to take in the long term. It is our intention to transfer Techmire's substantial machine capabilities to larger sizes and other alloys, such as aluminum and magnesium. The market for magnesium die-castings, specifically for handheld communication devices, is substantial and growing.

"EXCO HAS TREMENDOUS ENGINEERING DEPTH AND STRONG FINANCIAL RESOURCES."

By the end of 2001, with the anticipated Techmire acquisition, Exco Technologies Limited will be running at an annualized revenue rate in excess of \$250 million with still further significant growth potential. Together with top line growth, there should be a very handsome bottom line. Many times, I have been asked for the secret of Exco's success and my answer is always the same. The true key to success is our people. Our people give us the competitive edge. The theme of this year's Annual Report, "Driven by Detail," characterizes Exco's approach to business, the technical skills of our employees and the foundation upon which we have built a relationship with our customers.

I am confident that the financial and human resources are in place to manage Exco's businesses for the benefit of our customers, our employees and our shareholders.



BRIAN A. ROBBINS

*President and
Chief Executive Officer*

The following is management's discussion and analysis of operations and financial position and should be used in conjunction with the consolidated financial statements. It is intended to provide additional information on the Company's performance, financial position and outlook.

OPERATING RESULTS

Exco's sales of \$118.1 million for fiscal 2000 were consistent with 1999 sales of \$118.3 million.

The sale of the Canalloy division and lower sales in Exco's casting technology operations affected sales growth in the year. The delay in the release of new die-cast mould programs resulted in lower sales in the casting technology operations. However, in late fiscal 2000, Exco noted an improvement in the release of new programs and expects additional programs will be released in fiscal 2001. The sale of the Canalloy division occurred at the beginning of the fiscal year. Canalloy represented approximately 4% of Exco's total sales in prior years, however, this business was not strategic to Exco's primary casting and extrusion technology operations.

Extrusion technology sales increased by approximately 10% and sales increased in both North American and foreign markets.

The acquisition of TecSyn International Inc. ("TecSyn") was completed September 1, 2000. TecSyn designs and supplies automotive systems that include powdered metal cylinder liners and automotive restraint products. Its operating results, for one month, are included in Exco's operating results for the year ended September 30, 2000 and are identified as Automotive Systems in *note 11*, Segmented Information, in the consolidated financial statements.

Overall, gross margin was 39% as compared to 40% in fiscal 1999. Although gross margin exceeded industry norms, it was negatively affected in the year by excess capacity in the casting technology operations. Exco anticipates utilization to improve in fiscal 2001. However, the automotive systems operations (TecSyn), acquired at the end of the fiscal year, achieve somewhat lower margins and, accordingly, will reduce Exco's consolidated gross margin as a percentage of sales in 2001.

Selling, general and administration costs of \$16.2 million were consistent with the prior year at 13.7% of sales. Cost increases, in some areas, were offset by lower profit sharing costs.

Depreciation expense was \$12.7 million, virtually unchanged from 1999. Exco completed the upgrade and expansion of its casting and extrusion technology operations in 1999 and anticipated a levelling out of depreciation expense in fiscal 2000. The acquisition of TecSyn will result in an increase in depreciation and amortization expense in 2001.

Net interest expense was \$9 thousand in fiscal 2000 as compared to \$615 thousand in 1999. This occurred because Exco was in a net cash position for most of fiscal 2000. At the end of the fiscal year, Exco used its cash resources and operating lines to finance the TecSyn purchase. Accordingly, total borrowings at September 30, 2000 were \$38.2 million (September 30, 1999 – Nil) and, as a result, Exco anticipates incurring interest expense in fiscal 2001.

FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations before changes in non-cash working capital was \$24.2 million and unchanged from fiscal 1999. Although net income was lower for the year, as compared to 1999, non-cash charges were higher by \$1.7 million and offset this decrease. Cash invested in non-cash working capital increased by \$4.1 million. This increase in non-cash working capital was primarily a result of the timing of billing and the collection of customer advance payments.

At acquisition, TecSyn had \$8.7 million of working capital, which has been reflected in Investing Activities in the Consolidated Cash Flow Statements.

Cash used in investing activities was \$60.3 million in 2000. The net investment in TecSyn, after cash acquired, was \$48.6 million. A further \$11.7 million, net of proceeds on disposition of \$488 thousand, was invested in fixed assets and included completion of a new 35,000 square foot extrusion technology facility in Michigan replacing a much smaller leased plant. In addition, the Company replaced and upgraded certain equipment and computer-aided design and manufacturing systems ("CAD/CAM") as part of its ongoing effort to employ the most technologically advanced equipment and systems available.

The acquisition of TecSyn, together with capital expenditures, exceeded the Company's operating cash flow. Accordingly, Exco used its operating lines. At year end, the total debt to equity ratio was .37:1 with borrowings of \$38.2 million. The balance sheet remains strong.

In 2001, Exco plans to invest approximately \$21 million in capital assets. This expenditure includes the initial investment to establish an automotive restraint product facility for Europe. Exco believes that such a facility will enable it to capture a larger share of the growing European market. In addition, the Company will add magnesium die-cast capability to its Newmarket, Ontario casting technology facility. This equipment will enhance Exco's testing capability allowing for sample production of magnesium castings in order to test these moulds prior to shipment. For many years, Exco has had this capability for aluminum castings and it has helped establish Exco's leadership position. CAD/CAM systems will also be upgraded.

The investment in the extrusion technology operations will focus on upgrading equipment and adding additional electrical discharge machines to increase capacity.

Exco recently announced a take-over bid for Techmire Ltd. The offer price was \$3.85 cash per share for total consideration of approximately \$16.8 million. Techmire has cash on hand of approximately \$3 million for a required net investment of approximately \$13.8 million. The Company intends to finance the transaction through its operating lines.

Techmire is a leader in the design and manufacture of multi-slide die-casting machines for high precision components, servicing a variety of industries including electronics, automotive, telecommunications and consumer products. Techmire also supplies tooling and turnkey systems.

Exco believes that anticipated operating cash flow and unutilized credit facilities will be sufficient to meet its cash requirements in 2001 including the aforementioned acquisition. In addition, management anticipates that its financial position will remain strong.

Exco's Canadian operations negotiate sales contracts with its customers in both Canadian and U.S. dollars. In addition, the Company purchases material in both currencies. Together, the U.S. dollar sales and U.S. dollar purchases provide a natural hedge for the Canadian operations. Exco reviews its net foreign currency exposure on an ongoing basis.

Exco's automotive systems operations have a manufacturing facility in Mexico that incurs some operating expenses, primarily labour, in Mexican pesos. Significant long-term fluctuations in the relative value of the peso and U.S. dollar could affect Exco's operating results.

The dollar value of the Company's foreign exchange forward contracts is lower than the previous year, since management does not believe that the probable range within which the above-mentioned currencies could fluctuate poses a financial risk to the Company. Accordingly, the Company has chosen not to hedge its currency exposure. Exco will continue to evaluate its present strategy.

OUTLOOK

Market conditions for Exco's extrusion and casting technology business are very favourable.

The Company's extrusion technology business continues to benefit from a number of factors. Exco is the largest and most sophisticated manufacturer in North America. With less than 5% of the market, the Company has significant growth potential. Exco's current and potential customers continue to consolidate, creating a more sophisticated market and demanding an advanced supplier such as Exco. The Company remains an industry leader because of its systems approach to customers' requirements, offering not only tooling but related peripheral equipment required by extruders. As well, the trend toward lighter materials in many industries supports the demand for Exco's products.

The re-engineering of the automotive powertrain is an important factor driving Exco's casting technology business. The goal to make vehicles more fuel efficient while achieving necessary torque is one of the main objectives of Exco's OEM customers. Record high vehicle production levels and the reorganization and consolidation of OEMs on a worldwide basis have delayed finalization of new engines and transmissions. Exco has created the necessary capacity to address a significant increase in new powertrain programs once OEM plans are finalized. Higher fuel prices, the expectation of somewhat lower vehicle demand giving rise to powertrain changes and OEM reorganization should result in the release of new programs to Exco in 2001 and beyond.

Exco's automotive systems business supplies restraint products and powdered metal cylinder liners. Restraint products experienced significant revenue growth in excess of 20% in fiscal 2000, prior to acquisition by Exco. This growth trend is expected to accelerate as the Company expands its offering to include barrier systems, an important safety enhancement for sport utility vehicles, new automotive storage products and the supply of various fasteners for the installation of these products. Although Exco enjoys an enviable share of the North American restraint system market, Exco expects further growth as the market expands.

The powdered metal cylinder liners, produced by Exco, reduce emissions for small engine manufacturers. Given current government legislation as well as the other inherent advantages of the powdered metal cylinder liner, Exco has good reason to be optimistic regarding the potential of this product. Customer testing is ongoing and is expected to be completed within the next few months.

Exco's 2001 financial results should show significant improvement over fiscal 2000. We expect revenue to approach \$190 million, before the inclusion of Techmire. Both the casting and extrusion technology and automotive system segments are poised for profitable growth in 2001 and beyond as Exco continues to develop the market for its unique engineering and manufacturing skills.

Information in the previous discussion relating to matters such as projected growth, changing market conditions, improvements in productivity and future results constitutes forward-looking statements. Actual results in future periods may differ materially from the forward-looking statements because of a number of risks and uncertainties including, but not limited to, economic factors, industry cyclicality and the demand for the Company's technology, products and services.

The accompanying consolidated financial statements of Exco Technologies Limited and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

The Company maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board, and a majority of its members are outside directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

November 10, 2000

Exco Technologies Limited

AUDITORS' REPORT

We have audited the consolidated balance sheets of Exco Technologies Limited as at September 30, 2000 and 1999 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

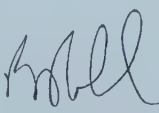
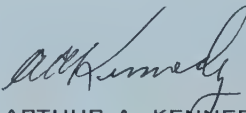
Chartered Accountants
Toronto, Canada
November 10, 2000

(Except as to note 12 which is as of November 16, 2000)

CONSOLIDATED BALANCE SHEETS

(\$000s)

As at September 30

	2000	1999
ASSETS		
Current		
Cash (note 5)	\$ —	\$ 2,844
Accounts receivable	36,907	20,939
Inventories (note 3)	20,880	13,049
Prepaid expenses and deposits	1,131	340
Total current assets	58,918	37,172
Fixed assets (notes 4 and 6)	85,867	77,322
Goodwill net of amortization of \$62 (note 2)	31,295	—
	\$ 176,080	\$ 114,494
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 5)	\$ 36,363	\$ —
Accounts payable and accrued liabilities	20,225	11,770
Income taxes payable (note 8)	1,037	1,329
Customer advance payments	9,013	5,406
Current portion of long-term debt (note 6)	871	195
Total current liabilities	67,509	18,700
Long-term debt (note 6)	1,022	641
Future income tax liabilities (note 8)	4,873	4,855
Total liabilities	73,404	24,196
Shareholders' Equity		
Share capital (note 7)	26,310	25,097
Retained earnings	74,865	64,555
Currency translation adjustment	1,501	646
Total shareholders' equity	102,676	90,298
	\$ 176,080	\$ 114,494
Commitments and contingencies (note 9)		
See accompanying notes		
On behalf of the Board:		
		
BRIAN A. ROBBINS	ARTHUR A. KENNEDY	
Director, President and Chief Executive Officer	Director, Chairman of the Board	

CONSOLIDATED STATEMENTS OF INCOME
AND RETAINED EARNINGS

(\$000s) except for earnings per share

Years ended September 30

	2000	1999
Sales	\$ 118,070	\$ 118,295
Cost of sales and operating expenses before the following:	72,390	70,409
Selling, general and administrative	16,198	16,337
Loss (gain) on sale of fixed assets	84	(1,068)
Depreciation and amortization	12,651	12,520
Interest on long-term debt	78	152
Other interest	(69)	463
	101,332	98,813
Income before income taxes	16,738	19,482
Provision for income taxes (note 8)		
Current	5,257	6,726
Future income taxes	1,171	720
	6,428	7,446
Net income for the year	10,310	12,036
Retained earnings, beginning of year	64,555	52,519
Retained earnings, end of year	\$ 74,865	\$ 64,555
Earnings per common share (note 10)		
Basic	\$ 0.52	\$ 0.61
Fully diluted	\$ 0.50	\$ 0.59
See accompanying notes		

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$000s) except per share amounts

Years ended September 30

	2000	1999
OPERATING ACTIVITIES		
Net income for the year	\$ 10,310	\$ 12,036
Add (deduct) items not involving a current outlay of cash		
Depreciation and amortization	12,651	12,520
Future income taxes	1,171	720
Loss (gain) on sale of fixed assets	84	(1,068)
	24,216	24,208
Net change in non-cash working capital		
balances related to operations	(4,117)	5,563
Cash provided by operating activities	20,099	29,771
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	36,363	(18,120)
Decrease in long-term debt	(203)	(1,176)
Issue of share capital	1,213	1,038
Cash provided by (used in) financing activities	37,373	(18,258)
INVESTING ACTIVITIES		
Acquisition of subsidiary (note 2)	(50,075)	—
Cash acquired on acquisition of subsidiary (note 2)	1,450	—
Investment in fixed assets	(12,179)	(11,822)
Proceeds from sale of fixed assets	488	3,153
Cash used in investing activities	(60,316)	(8,669)
Increase (decrease) in cash	(2,844)	2,844
Cash, beginning of year	2,844	—
Cash, end of year	\$ —	\$ 2,844
Cash per common share provided by operating activities		
before giving effect to net change in non-cash working		
capital balances related to operations (note 10)		
Basic	\$ 1.21	\$ 1.23
Fully diluted	\$ 1.15	\$ 1.17
See accompanying notes		

(\$000s) except per share amounts

September 30, 2000

1. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of the Company's wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

INVENTORIES

Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis. Cost includes the cost of materials plus direct labour and the applicable share of manufacturing overhead.

FIXED ASSETS

Fixed assets are recorded at historical cost, net of related investment tax credits and accumulated depreciation. Expenditures for maintenance and repairs are charged to income as incurred. Fixed assets retired or otherwise disposed of and the related accumulated depreciation, are removed from the accounts with the net gain or loss being included in income.

Depreciation and amortization are provided over the estimated useful lives of the fixed assets as follows:

Buildings	4% declining balance
Machinery and equipment	20% to 30% declining balance
Tools	25% straight-line
Leaseholds	straight-line over the terms of the leases

GOODWILL

Goodwill, which represents the excess of the purchase price of the Company's interest in subsidiary companies over the fair value of the underlying net identifiable assets arising on acquisitions, is amortized over periods not exceeding 40 years. Goodwill is evaluated in each reporting period to determine if there were events or circumstances which would indicate a possible inability to recover the carrying amount. In doing so, the Company evaluates whether there has been a permanent impairment in the value of unamortized goodwill based on the estimated undiscounted cash flows of each business to which the goodwill relates.

FINANCIAL INSTRUMENTS

Financial instruments recognized in the consolidated balance sheets comprise cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, income taxes payable, customer advance payments and long-term debt. The carrying value of these instruments approximates their fair value.

The Company also has forward foreign exchange sale contracts denominated in U.S. dollars. These contracts are used to hedge the Company's foreign exchange exposure inherent in sales in U.S. dollars. Foreign exchange contracts are negotiated with Canadian banks with credit ratings of R1 (mid) as determined by the Dominion Bond Rating Service. The Company does not anticipate non-performance by the banks which are counterparties to these contracts.

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet dates. Revenue and expense transactions denominated in foreign currencies are translated at the rates of exchange prevailing at the dates of the transactions. All of the Company's foreign operations are self-sustaining. The assets and liabilities of foreign subsidiaries are translated using the exchange rates in effect at the balance sheet dates. Gains and losses arising from the translation of the Company's net investment in its foreign subsidiaries are deferred as a separate component of shareholders' equity.

Other gains and losses resulting from movements in exchange rates are reflected in the consolidated statements of income and retained earnings except for gains and losses on foreign exchange forward contracts used to hedge specific future foreign currency transactions. Gains or losses on these contracts are accounted for as a component of the related hedged transaction.

REVENUE RECOGNITION

Revenue from the sale of manufactured products is recognized upon product completion.

RESEARCH AND DEVELOPMENT EXPENDITURES

Research and development expenditures are expensed as incurred.

INCOME TAXES

The Company follows the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and

(\$000s) except per share amounts

September 30, 2000

tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

STOCK-BASED COMPENSATION

No compensation expense is recognized for stock options granted under the Company's Stock Option Plan. Consideration paid by employees, directors and senior officers on the exercise of stock options is credited to share capital.

2. Acquisition of Subsidiary

Effective September 1, 2000, the Company purchased 100% of the outstanding shares of TecSyn International Inc. ("TecSyn"). TecSyn is a supplier of automotive restraint systems and a manufacturer of powdered metal engine cylinder liners. It has operations in the United States and Mexico.

The purchase price was \$50,075, including transaction costs of \$980, and restructuring costs of \$454. This transaction was financed with a combination of existing cash resources and the Company's operating lines. The acquisition has been accounted for using the purchase method and the results of operations are included in the Company's consolidated financial statements from September 1, 2000.

Net assets acquired at their assigned values are as follows:

Non-cash working capital	\$ 8,705
Fixed assets	8,670
Future income taxes	1,153
Cash	1,450
Long-term debt (including current portion)	(1,260)
Net identifiable assets purchased	18,718
Goodwill upon acquisition	31,357
Net purchase price	<u>\$ 50,075</u>

3. Inventories

	2000	1999
Raw materials	\$ 9,386	\$ 2,131
Work in process and finished goods	11,494	10,918
	<u>\$ 20,880</u>	<u>\$ 13,049</u>

4. Fixed Assets

	2000		
	Cost	Accumulated Depreciation & Amortization	Net Book Value
Land	\$ 5,585	\$ —	\$ 5,585
Buildings	30,407	7,225	23,182
Machinery and equipment	146,191	89,749	56,442
Tools	3,740	3,157	583
Leaseholds	102	27	75
	<u>\$ 186,025</u>	<u>\$ 100,158</u>	<u>\$ 85,867</u>

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	1999		
	Cost	Accumulated Depreciation & Amortization	Net Book Value
Land	\$ 4,731	\$ —	\$ 4,731
Buildings	25,147	4,758	20,389
Machinery and equipment	114,281	62,828	51,453
Tools	3,352	2,804	548
Leaseholds	530	329	201
	<u>\$ 148,041</u>	<u>\$ 70,719</u>	<u>\$ 77,322</u>

5. Bank Indebtedness

At September 30, 2000, the Company has available lines of credit totalling \$62,000 (1999 – \$33,455), of which \$25,637 (1999 – \$33,455) was unused and available. These operating lines are available at variable rates not exceeding prime rate, are unsecured and are due on demand. The prime rate in Canada at September 30, 2000 was 7.5% (1999 – 6.25%) and in the United States was 9.5% (1999 – 8.25%). In addition, under the terms of these credit agreements, the Company is permitted to make use of banker's acceptances to borrow at effective interest rates which are usually lower than those charged under the banks' lines of credit.

6. Long-Term Debt

	2000	1999
Canadian mortgage payable	\$ 627	\$ 656
U.S. mortgage payable	1,045	—
U.S. capital lease obligations	221	—
U.S. term loans	—	180
	<u>1,893</u>	<u>836</u>
Less current portion	871	195
Long-term portion	<u>\$ 1,022</u>	<u>\$ 641</u>

The Canadian mortgage, secured by land and a building, bears interest at 10.75% and matures August 11, 2001. The monthly principal and interest payments on this loan are approximately \$8 and are based on an amortization period of 25 years.

The U.S. mortgage, secured by land and a building, bears interest at 8.7% and matures June 1, 2005. The monthly principal and interest payments on this loan are approximately U.S.\$9 and are based on an amortization period of 10 years.

The U.S. capital lease bears interest at 5.95% and matures January, 2002. The monthly principal and interest payments are \$15 and are based on an amortization period of three years.

Total principal repayment requirements are approximately as follows:

2001	\$ 871
2002	125
2003	85
2004	93
2005	719
	<u>\$ 1,893</u>

7. Share Capital

AUTHORIZED

The Company's authorized share capital consists of an unlimited number of common shares, an unlimited number of non-voting preference shares issuable in one or more series and 275 special shares.

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ISSUED

The Company has not issued any non-voting preference shares or special shares. Changes to the issued common shares are shown in the following table:

	Common Shares	
	Number of Shares	Stated Value
Issued and outstanding at September 30, 1998	19,493,766	\$ 24,059
Issued for cash under the Stock Option Plan	322,100	1,038
Issued and outstanding at September 30, 1999	19,815,866	25,097
Issued for cash under the Stock Option Plan	182,803	1,213
Issued and outstanding September 30, 2000	19,998,669	\$ 26,310

STOCK OPTION PLAN

The Company has a Stock Option Plan under which common shares may be acquired by employees, officers and directors of the Company. The following table shows the changes to stock options outstanding:

	2000		1999	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	1,195,912	\$ 7.22	1,326,097	\$ 6.04
Granted during the year	229,246	8.27	199,415	8.74
Exercised during the year	(73,500)	5.75	(322,100)	3.22
Cancelled during the year	(37,329)	8.33	(7,500)	9.83
Balance, end of year	1,314,329	\$ 7.42	1,195,912	\$ 7.22

The following table summarizes information about stock options outstanding at September 30, 2000:

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$5.50 – \$ 8.00	866,485	5.9 years	\$6.44	521,651	\$5.90
\$8.00 – \$10.83	447,844	6.2 years	\$9.40	88,539	\$10.13

The number of shares available for option at September 30, 2000 is 331,671 (1999 – 523,588).

EMPLOYEE STOCK PURCHASE PLAN

The Company has an Employee Stock Purchase Plan. The plan allows employees to purchase shares annually through payroll deductions at a predetermined price. During 2000, payroll deductions were made supporting the purchase of a maximum of 127,103 shares at \$8.60 per share. The purchase and payroll deductions with respect to these shares will be completed in the first quarter of fiscal 2001. Employees must decide annually whether or not they wish to purchase their shares. During 2000, 109,303 shares (1999 – Nil) were issued under the terms of this plan.

NORMAL COURSE ISSUER BID

The Company received approval from The Toronto Stock Exchange for a normal course issuer bid for a 12-month period beginning on July 10, 2000. The Company's Board of Directors authorized the purchase of up to 1,188,258 common shares, less any common shares purchased pursuant to the Company's deferred profit sharing plan, representing approximately 5% of the Company's outstanding shares. During fiscal 2000, the Company did not purchase any shares.

(\$000s) except per share amounts

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8. Income Taxes

The Company's effective income tax rate is as follows:

	2000	
Income before income taxes	\$ 16,738	100%
Income taxes at Canadian statutory rates	\$ 7,398	44.2%
Manufacturing and processing deduction	(1,506)	(9.0)
Other	536	3.2
	<u>\$ 6,428</u>	<u>38.4%</u>

	1999	
Income before income taxes	\$ 19,482	100.0%
Income taxes at Canadian statutory rates	\$ 8,689	44.6%
Manufacturing and processing deduction	(1,753)	(9.0)
Other	510	2.6
	<u>\$ 7,446</u>	<u>38.2%</u>

Future income tax assets and liabilities consist of the following temporary differences:

	2000	1999
Assets		
Tax benefit of loss carryforwards	\$ (678)	\$ (854)
Liabilities		
Tax depreciation in excess of book depreciation	5,551	5,709
Net future income tax liabilities	<u>\$ 4,873</u>	<u>\$ 4,855</u>

9. Commitments**LEASES**

The Company has commitments under long-term lease agreements for plant facilities and other operating leases expiring at various dates up to 2005. Future minimum lease payments are as follows:

2001	\$ 2,242
2002	1,213
2003	1,093
2004	793
2005	745
	<u>\$ 6,086</u>

FOREIGN EXCHANGE CONTRACTS

The Company has contracts to sell U.S.\$700 (1999 – U.S.\$2,700) over the next 12 months at rates varying from \$1.47 to \$1.48 (1999 – \$1.44 to \$1.37) Canadian for each U.S. dollar sold. Management estimates that the closure of these contracts on September 30, 2000 would result in a loss of \$18 (1999 – \$107).

10. Earnings and Cash Per Common Share Provided by Operating Activities

Basic earnings and cash per common share are calculated using the monthly weighted average number of common shares outstanding of 19,938,343 (1999 – 19,702,999). Fully diluted earnings and cash per common share are calculated using the monthly weighted average number of common shares outstanding adjusted for stock options as though these options had been exercised and shares issued at the beginning of the year.

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11. Segmented Information

BUSINESS SEGMENTS

The Company operates in two business segments: Casting and Extrusion Technology and Automotive Systems. The Casting and Extrusion Technology segment designs and engineers tooling and other manufacturing equipment. Its operations are substantially for automotive and other industrial markets in North America. The accounting policies followed in the operating segments are consistent with those outlined in *note 1* of the Consolidated Financial Statements.

The Automotive Systems segment produces automotive restraint systems and powdered metal cylinder liners for sale to automotive manufacturers and Tier 1 suppliers (suppliers to automakers).

The Automotive Systems segment was acquired September 1, 2000 and therefore sales, depreciation and amortization, income before income taxes and fixed asset additions for this segment, shown in the following table, reflect one month of operations for the year ended September 30, 2000. For the Company's year ended September 30, 1999, it operated only one business segment, Casting and Extrusion Technology.

	2000			1999
	Casting & Extrusion Technology	Automotive Systems (1 month)	Total	Casting & Extrusion Technology
Sales	\$ 113,873	\$ 4,197	\$ 118,070	\$ 118,295
Depreciation and amortization	\$ 12,413	\$ 238	\$ 12,651	\$ 12,520
Income before income taxes	\$ 16,374	\$ 364	\$ 16,738	\$ 19,482
Fixed asset additions	\$ 11,970	\$ 209	\$ 12,179	\$ 11,822
Total fixed assets, net	\$ 77,243	\$ 8,624	\$ 85,867	\$ 77,322
Goodwill	—	\$ 31,295	\$ 31,295	—
Total assets	\$ 119,284	\$ 56,796	\$ 176,080	\$ 114,494

GEOGRAPHIC AND CUSTOMER INFORMATION

	2000	1999
Sales		
Canada	\$ 30,816	\$ 33,301
United States	76,718	79,058
Other	10,536	5,936
	<u>\$ 118,070</u>	<u>\$ 118,295</u>
Fixed assets, net		
Canada	\$ 56,820	\$ 58,994
United States	23,286	18,328
Mexico	5,761	—
	<u>\$ 85,867</u>	<u>\$ 77,322</u>

In 2000, sales to the Company's largest customer were 28% (1999 – 33%) of total sales.

12. Subsequent Event

On November 15, 2000, the Company announced a proposed transaction whereby it would offer to acquire all the outstanding shares of Techmire Ltd. ("Techmire"). The offer price of \$3.85 per Techmire share, for total consideration of approximately \$16,800, would be financed through the Company's operating lines. The transaction is conditional upon satisfaction of certain conditions.

Techmire designs and manufactures multi-slide die-casting machines for high precision components, and services a variety of industries. Techmire also supplies tooling and turnkey systems related to these machines.

For its fiscal year ended July 31, 2000, Techmire reported sales of \$18,593, net income of \$2,121 and total assets of \$11,686.

DIRECTORS

Helmut Hofmann

Chairman, Héroux-Devtek

Arthur A. Kennedy, Q.C., B. Comm.

Chairman of the Board

Retired; formerly Partner, Torys

Richard D. McGraw, B. Comm.

President and Chief Executive Officer,
Vitran Corporation

Brian A. Robbins, P. Eng.

President and Chief Executive Officer
of the Company

Robert I. Werner, P. Eng.

Management and Technology Consultant
Retired; formerly Vice-Chairman, Director
and Senior Vice-President, Werner Co.

Ralph Zarboni, B. Comm., FIM

President,
Rossiter Ventures Corporation

Audrey E. Robbins, Honorary Director

Co-founder of the Company

CORPORATE OFFICERS

Arthur A. Kennedy

Chairman of the Board

Brian A. Robbins

President and Chief Executive Officer

Scott E. Bond

Vice-President, Finance and Chief Financial Officer

Bonnie M. Cartwright

Vice-President, Business Development

Anne Himelfarb

Secretary

Jan M. Tesar

President, Casting Technologies

Gabriel Piccinin

President, Exco Extrusion Dies Division

Lawrence C. Robbins

President, Alu-Die Division

Paul H. Robbins

Vice-President, Exco Extrusion Dies Division

Wayne Corbett

President, TecSyn, Inc.

William P. Schroers

President, Polytech

PRINCIPAL BANKERS

The Bank of Nova Scotia

Markham, Ontario

TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust

Toronto, Ontario

STOCK LISTING

Toronto Stock Exchange (XTC)

CORPORATE OFFICE

Exco Technologies Limited

130 Spy Court, 2nd Floor
Markham, Ontario L3R 5H6
Telephone: (905) 477-3065
Fax: (905) 477-2449
E-mail: general@excocorp.com
Web: www.excocorp.com

2000 ANNUAL MEETING

The 2000 Annual Meeting of the Shareholders
will be held at the Design Exchange, 234 Bay Street,
Toronto, on Wednesday, January 24, 2001 at 4:30 p.m.

The interactive and French versions of the 2000
Annual Report will be available on our Web site
on January 24, 2001.

EXCO TECHNOLOGIES LIMITED



130 Spy Court, 2nd Floor, Markham, Ontario L3R 5H6